

*e. Total Investment With Fill*

Total Investment with Fill is calculated by dividing Total Equipment Investment by the Fill Factor

*f. Staff Review and Recommendations*

Staff has verified that the calculation of Total Investment with Fill is accurate and believes that the general methods used to develop the Total Investment with Fill logically consistent. However, the number may change as a result of changed inputs per Staff recommendations. Staff recommends that the methodology used to compute the Total Investment with Fill figure be approved for the purpose of these LRIC studies, but reserves the right to reexamine the figure in later LRIC studies.

*g. Building Modification Investment Factor*

SWBT states that its Building Modification Investment Factor recovers building investment for equipment. It is developed by dividing Central Office Building Investment by Central Office and Circuit Investment (see Tab 5 of the '96 Incremental Methodology and Factors binder). SWBT's method assumes that there is a direct relationship between the *central office and circuit equipment* and *central office building requirements* based on *dollars of investment* in central office equipment.

This factor is applied to the Circuit and Central Office Equipment Accounts in the DS-1 and DS-3 NAC, DS-1 and DS-3 Dedicated Interoffice Facility, Voice Grade to/from DS-1 and DS-1 to/from DS-3 Multiplexing, and DS-3 NACC BNF LRIC studies. An example of this factor and its application can be seen behind Calculations Tab 1, on Schedule A-1, line 12 of the DS-1 Dedicated Interoffice Facility BNF LRIC study.

*h. Staff Review and Recommendations*

Staff has verified the mathematical accuracy of the calculation of the Building Modification Investment Factor.

In BNF LRIC studies filed previously, SWBT used a Building Investment Factor that was computed by dividing Annual Building Investment Additions by Annual Central Office (equipment) Investment Additions (see Tab 5 of the '95 Incremental Methodology and Factors binder, as used to support the BNF LRIC studies filed in Project No. 14091). In its review and recommendations for the BNF LRIC studies using this factor, Staff stated that it believed that the portion of central office building investment required by a BNF, group of BNFs, service, or group of services should be recovered by the BNFs, services, or group of services that cause the central office building investment. In addition, Staff stated that while it believed that it may be possible to develop a building factor that relates building investment to the provision of a BNF, group of BNFs, service, or group of services, Staff did not believe that there was a direct relationship between investment dollars required for additional central office equipment (within the central

office) and the investment dollars required for additional central office buildings. Staff argued that the use of an investment dollar as a method to identify responsibility for building investment can greatly distort the true responsibility a BNF, group of BNFs, service, or group of services has for building investment.

As an example, Staff said that in a central office, the most expensive piece of equipment is likely to be the switch central processor; however, the switch central processor occupies a disproportionately small amount of floor space. The use of a building factor based solely on equipment investment would greatly exaggerate the building investment responsibility of the switch central processor. Therefore, Staff stated that it did not believe that a building factor based on central office equipment and circuit equipment investment is consistent with the principles, instructions, and requirements set forth in § 23.91. SWBT agreed to remove the Building Investment Factor, but was free to propose alternative factors in future LRIC studies filed pursuant to Subst. R. §23.91 for analysis by Staff.

The Building Investment Factor currently proposed by SWBT seems similar to that proposed by SWBT and recommended against by Staff in the LRIC studies filed in Project No. 14091 (See page 25 of GC's Comments on 14091), but the current factor also includes other costs beyond building space. SWBT supports the currently proposed factor by arguing that often building investment for a relatively small, but expensive piece of equipment, like a switch, includes more than just the floor space required to house the equipment. SWBT maintains that other building investment, such as the air conditioning installed to cool the switch, for example, is necessary. SWBT says that the switch's

presence causes the air conditioner investment. Also similar to the original Building Investment Factor, SWBT's currently proposed factor assumes that the building investment required by a piece of equipment is determined by how expensive that piece of equipment is.

A factor must meet two criteria to be considered appropriate in the BNF LRIC studies. The first criteria is that the factor represents a direct incremental relationship between the annual charge factor and the provision of a BNF. This criteria concerns the question of whether or not the costs of the building modifications are differentiable by the type of output (BNFs). Assume total costs can be represented by the following equation:

$$\text{Total Cost} = c_1(q_1) + c_2(q_2) + \dots + BC(q_1, 2, \dots) + CC$$

where  $q_n$  is output  $n$  (BNF  $n$ ),

$C_n$  is the Cost caused by  $q_n$ ,

$BC$  is Building Modification Costs, and

$CC$  is the Common Cost (Overhead, Administrative costs, etc.).

If the above function correctly specifies the production function of the firm, one would be able to differentiate the function over a given BNF to determine the costs to the firm that are incremental to the BNF. If SWBT's characterization of building investment as an incremental cost to a BNF is correct, there would be a result for the direct capital investment required to provide the BNF and a result for the building investment required to provide the BNF. For example, for a switching feature (such as call forwarding),

SWBT does develop a direct capital investment through its SCIS cost model (as described in GC's Comments on 14091). This demonstrates that  $c_1(q_1)$  exists in the production function of the firm. SWBT does not develop a result for building investment by means of any cost model or other direct demonstration of cost causality. In response to numerous RFIs, SWBT admitted that it has performed no studies showing how much of a specific type of building investment (e.g., air conditioning equipment, hallway space, etc.) is required by each piece of central office equipment and each BNF provided by that equipment, not to mention the cost of the specific building investment associated with each piece of central office equipment or BNF provided by that central office equipment. Therefore, SWBT has not demonstrated that  $BC(q_1, q_2, \dots)$  exists. Without this demonstration, the production function of the firm must be represented by:

$$\text{Total Cost} = c_1(q_1) + c_2(q_2) + \dots + CC$$

Thus, building modification investment must be considered a common cost.

The second criteria is that the factor is developed and calculated properly.

Regardless of whether or not an investment is incremental to the provision of a BNF, if the factor meant to reflect this relationship does not reflect this relationship, then the factor is inappropriate for use in a LRIC study. Staff believes that even if building modification costs are differentiable by the output of a certain BNF, SWBT's Building Modification Investment Factor does not reflect such a relationship.

Subst. R. §23.91 requires that the LECs do cost studies to develop the Long Run Incremental Costs of BNFs, Services, and Groups of Services. The 'Long Run' is defined in §23.91(c)(15) as "a time period long enough to be consistent with the assumption that the company is in the planning stage and all of its inputs are variable and avoidable." The 'Increment', according to Subst. R. §23.91(f)(1), is "...the level of output necessary to satisfy total current demand levels for all services using the BNF in question." In other words, the BNF Long Run Incremental Cost, according to Subst. R. §23.91, is the cost to the LEC of providing all of the BNFs demanded, if the LEC were to construct a network from the ground up today (using least cost technology). SWBT says that Building Investment is a cost of providing these BNFs and must be recovered, pursuant to the Cost Causation Principle of Subst. R. §23.91(c)(6) ("Costs are caused by an activity, in the long run, if the costs are brought into existence as a direct result of the activity").

Staff disagrees with the assumption inherent in SWBT's Building Investment Factor that a given amount of Building Investment is brought into existence by the direct result of the activity of providing a BNF. Staff does not believe that SWBT has shown such a mathematically differentiable relationship between building investment and the provision of an additional BNF. Thus, SWBT's Building Investment Factor may not meet the first, and certainly does not meet the second criteria of being appropriate for use in a LRIC study.

The method in which SWBT uses to assign these building investments is a variant of Fully-Distributed Costing (FDC). FDC takes the amount of costs that cannot be

directly accounted for in a cost study and allocates these costs, generally in one of three ways<sup>1</sup>:

- 1) by relative output, or allocation of common costs among activities on the basis of how much output the activity or product represents relative to total output.
- 2) by attributable cost, or allocation of common cost on the basis of how much cost the activity or product represents relative to total cost, or
- 3) by gross revenue, or allocation of common cost on the basis of how much revenue the activity or product represents relative to total revenue.

SWBT's variation of FDC is the attributable cost method. SWBT's Building Investment Factor shows a relationship where the investment in building and building modification is allocated to each BNF based on the equipment investment of that BNF. Because this factor is multiplied by the equipment investment for a BNF, a BNF with a higher equipment investment will be allocated a larger amount of building modification investment than one with a lower equipment investment. This allocation will occur regardless of the actual building requirements or actual cost in building investment required to provide either BNF.

Staff does not agree that there is a direct causal relationship between the cost of a piece of equipment and the investment in the building it requires (i.e., that a more expensive piece of equipment will automatically require more building investment). The use of FDC is not accurate when there is a relatively indirect relationship between the unit

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<sup>1</sup> Berg, Sanford V., and Tschirhart, John. 1989. *Natural Monopoly Regulation*. Cambridge, MA: Cambridge University Press.

of output and the attributable cost. It is not clear, for example, how to allocate the cost of the hallways in the central office to the many different pieces and types of equipment in the central office (e.g., do the hallways really get larger when more switches are put in the building to meet demand?). Furthermore, it is not clear which equipment uses how much of each part of the building invested in (e.g., how much of the air conditioner is used to cool off the switch? How much is used to cool the multiplexer? How much is used to cool the employees working in the building?). Likewise, it is not obvious what amount of the building investment each unit of output (BNF in this case) causes or uses (e.g., Does a switching BNF use more air conditioning, and thus 'cause' more air conditioner investment, than a multiplexing BNF? Do they cause the same amount of air conditioning investment? How is the amount of air conditioning investment 'caused' by each unit of a particular type of BNF determined?). In addition, the building investment required to furnish, for example, air conditioning for the switches and multiplexers (and all other equipment) in a central office is used for many BNFs, and it is not at all clear what the relationship between each BNF and a unit of air conditioning necessary to provide that BNF is.

As mentioned above, in response to numerous RFIs from Staff, SWBT admitted that it has performed no studies showing how much of a specific type of building investment (e.g., air conditioning equipment, hallway space, etc.) is required by each piece of central office equipment and each BNF provided by that equipment, not to mention the cost of the specific building investment associated with each piece of central office equipment or BNF provided by that central office equipment. Therefore, Staff does not



believe that SWBT's Building Investment Factor follows the Cost Causation Principle in Subst. R. §23.91(c)(6), which states that "Costs are caused by an activity, in the long run, if the costs are brought into existence as a *direct* result of the activity." (emphasis added). The method SWBT uses to calculate the Building Investment Factor does not show a direct relationship between building investment and an activity (the BNF or the provision of the BNF). It should be noted that GTE, the other LEC filing LRIC studies pursuant to §23.91, apparently does not believe this direct relationship exists either, as it has not included such a building investment factor in any of the LRIC studies it has filed.

In addition, the Building Investment Factor SWBT uses in the BNF LRIC studies filed in this project is based solely on embedded investment in central office and circuit equipment. However, Subst. R. §23.91 states, "...the LECs shall avoid the use of embedded cost data...and the LEC shall justify any instance in which embedded cost data are used." As seen in the argument above, Staff is not convinced that the use of embedded cost data is justifiable in this instance.

SWBT may argue that the allocation method inherent in the currently proposed Building Investment Factor is the most practical given the many different types of BNFs that SWBT contends cause the building modification investment. However, the question is not whether or not a method is more practical or easier to use, but whether or not the method is consistent with the Principles, Guidelines, and Instructions of incremental costing and Subst. R. §23.91. SWBT's Building Investment Factor did not meet the criteria of appropriateness for use in LRIC studies.

Staff does not believe that SWBT should not be able to recover costs associated with building investment required to shelter and support the equipment providing BNFs. However, Staff does not believe that the method currently proposed by SWBT, which is a form of Fully-Distributed Costing, is appropriate for use in the LRIC studies filed pursuant to Subst. R. §23.91. The tenuous and indirect causative relationships between building investment and central office and circuit equipment and BNFs lead Staff to believe that the building investment costs are best regarded as common costs, and should not be allocated to BNFs through an indirect and arbitrary method. Therefore, Staff recommends that the ALJ order SWBT to refile the BNF LRIC studies with this Building Investment Factor and its effects removed. It should be noted that SWBT does not agree with Staff on this recommendation.

Regardless of the appropriateness of SWBT's Building Investment Factor as a whole, Staff has discovered an error in the application of the factor to an equipment investment in the DS-3 Line Haul BNF LRIC study. For the Cost Driver Combination L-L, 20 to 50 miles, the equipment investment in buried fiber cable is mistakenly multiplied by the Building Investment Factor (See Calculations Tab 1, Schedule A-2, line 12 of the DS-3 Dedicated Interoffice Facility BNF LRIC study). Regardless of the methodological appropriateness of the Building Investment Factor for some equipment accounts in the BNF LRIC studies filed in this project (as discussed above by Staff), this is an inappropriate application for equipment that is located outside of the central office building. Also, such an application is not performed for any other Buried Fiber Cable Equipment Investment for any other Cost Driver Combination in this BNF LRIC study.

This is the only mathematical and/or transferring error Staff found in the DS-1/DS-3 Line Haul BNF LRIC studies filed in this project. SWBT has recognized this error and will correct it when they refile the BNF LRIC studies filed in this project.

*i. Total Investment*

Total Investment is the sum of Total Investment with Fill and the Building Investment.

*j. Staff Review and Recommendations*

Staff has verified that the calculation of the Total Investment figure is accurate. The number may change as a result of changed inputs per Staff recommendations.

Staff believes that the general methods used to develop the Total Investment are logically consistent. Staff recommends that the methodology used to compute the Total Investment be approved for the purpose of these LRIC studies, but reserves the right to reexamine the figure in later LRIC studies.

**3. Determination of Annual Capital Costs**

Total Capital Investment required to provide the BNF is converted into an Annual Capital Cost to the firm. This conversion is done by the application of the Depreciation, Cost of Money (Return), and Income Tax Factors. As explained in GC's Comments on 14091, SWBT uses the Bellcore CapCost Model to simultaneously develop its Depreciation, Cost of Money, and Income Tax Factors.

*a. Depreciation Factor*

The Depreciation Cost Factor calculates the annual cost to the firm from consuming a capital investment over a period of time. Subsection (f)(6) of § 23.91 states that “when the company uses the most recent commission approved rate of depreciation for the company there will be a presumption of reasonableness. The company shall justify the use of any other rate.” For the BNF LRIC studies filed in this project, there were many different types of equipment (and thus, many different equipment accounts). Because different types of equipment may be depreciated over a different time spans and under different assumptions, there are many different Depreciation Cost Factors to used in these BNF LRIC studies.

*b. Staff Review and Recommendations*

Staff verified the mathematical accuracy and the methodological reasonableness of all of the calculations used by the CapCost Model to determine the Depreciation Factors for each equipment account used in the BNF LRIC studies filed in this project.

However, the Rate of Return (Cost of Money) SWBT used to develop the Depreciation Factors for the BNF LRIC studies filed in this project is a cause of concern for Staff. In previously-filed BNF LRIC studies, SWBT had not used the most recent commission-approved Rate of Return. Subsection (f)(5) of § 23.91 reads as follows:

*Cost of Money.* When a company uses the most recent commission approved rate of return for the company, as that term is used in § 23.21(c)(1) of this title (relating to Cost of Service) there will be a presumption of reasonableness. The company shall justify the use of any other rate

The Rate of Return used by SWBT in previously-filed BNF LRIC studies was not the Rate of Return authorized in SWBT's last rate case, Docket No. 8585, for the company's Rate of Return. Instead, SWBT proposed the use of a forward-looking Cost of Money for use in developing its Depreciation, Cost of Money, and Income Tax Factors. In its comments on those studies, Staff stated that the actual forward-looking Cost of Money for SWBT was between 9.5% and 10%, but that the proposed Cost of Money was an acceptable compromise between SWBT's authorized Rate of Return and Staff's assessment of SWBT's actual Cost of Money. Therefore Staff recommended that proposed Cost of Money be accepted as the SWBT Cost of Money for the BNF LRIC

studies and was supported in this recommendation by SWBT (See GC Comments on 14091)

However, for the BNF studies filed in this project, SWBT has decided to use the 12.06% factor that served as a ceiling for the non-sharing earnings range approved in Docket No. 8585. Because of the fact that SWBT has already admitted that this commission-approved earnings ceiling is not forward-looking, as well as the fact that Staff believes SWBT's actual Cost of Money is between 9.5% and 10% (or even lower), Staff recommends that the ALJ order SWBT to refile the studies in this project using either the Cost of Money that SWBT mentioned was forward-looking in the previously-filed LRIC studies or a Staff-calculated Cost of Money of between 9.5 and 10%. It should be noted that SWBT does not agree with Staff on this recommendation.

Staff believes that SWBT's Depreciation Factor, when developed using a Rate of Return no higher than that used in the BNF LRIC studies filed in Project No. 14091 will be consistent with the principles, instructions, and requirements set forth in § 23.91.

*c. Cost of Money Factor*

The Cost of Money Factor calculates the annual rate of return a firm must earn for the firm to be able to attract investors to raise capital for investment. For the BNF LRIC studies filed in this project, there were many different types of equipment (and thus, many different equipment accounts). Because different types of equipment that must earn a

return over a different time spans and under different assumptions, there are many different Cost of Money Factors to used in these BNF LRIC studies.

*d. Staff Review and Recommendations*

Staff has examined the CapCost Model that SWBT uses to develop the Cost of Money Factors used for each equipment account included in the BNF LRIC studies filed in this project. Staff believes the formula to be theoretically correct. Staff has verified the mathematical accuracy of the calculations for this factor in the equipment accounts used in these studies.

For the same reasons discussed above in the recommendations for the Depreciation Factor, Staff recommends that SWBT refile the BNF LRIC studies filed in this project using a Rate of Return no higher than that used in the BNF LRIC studies filed in Project No. 14091.

Staff believes that SWBT's Cost of Money Factor, when developed using a Rate of Return no higher than that used in the BNF LRIC studies filed in Project No. 14091 will be consistent with the principles, instructions, and requirements set forth in § 23.91.

*e. Income Tax Factor*

The Income Tax Factor is used to determine the costs to the firm associated with paying federal income taxes on the return on equity portion of the Cost of Money. For the BNF LRIC studies filed in this project, there were many different types of equipment (and thus, many different equipment accounts) Because of the many different types of equipment that must earn a return over different time spans and under different assumptions (and income taxes are thus paid on these returns), there are many different Income Tax Factors to used in these BNF LRIC studies.

*f. Staff Review and Recommendations*

Staff has examined the CapCost Model that SWBT uses to develop Income Tax Factors used for each equipment account included in the BNF LRIC studies filed in this project. Staff believes the formula to be theoretically correct. Staff has verified the mathematical accuracy of the calculations for this factor in the equipment accounts used in these studies.

As already mentioned, the CapCost Model develops Depreciation, Cost of Money, and Income Tax Factors simultaneously. Therefore, the application of the Rate of Return as discussed above necessarily affects the value of the Income Tax Factor. Given that SWBT refiles these BNF LRIC studies and applies to the calculation of the Income Tax Factor a Rate of Return no higher than that recommended by Staff in GC's Comments on 14091 and approved by the ALJ, Staff believes that SWBT's Income Tax Factor will be consistent with the principles, instructions, and requirements set forth in § 23.91.



*g. Total Annual Capital Costs*

Total Annual Capital Costs is the sum of Depreciation, Cost of Money, and Income Tax Costs.

*h. Staff Review and Recommendations*

Staff has verified the mathematical calculations for the Total Annual Capital Costs and found no errors. The number may change as a result of changed inputs per Staff recommendations.

Staff believes that the general methods used to develop the Total Annual Capital Costs are logically consistent. Staff recommends that the methodology used to determine the Total Annual Capital Costs be approved for the purpose of these LRIC studies, but reserves the right to reexamine the figure in later LRIC studies.

**4. Determination of Annual Operating Expenses**

The following is an explanation of the development of the Annual Operating Expenses of the firm that are incremental to (caused by) the investment in the BNFs for which LRIC studies were filed in this project

*a. Equipment Maintenance Factor*

The Equipment Maintenance Factor calculates the Annual Maintenance and Repair Expenses the firm incurs as a result of making the capital investment. This factor includes expenses for moving, changing, repairing, and maintaining plant equipment. It is developed behind Tab 15 of the '96 Incremental Methodology and Factors Binder.

*b. Staff Review and Recommendation*

Staff has verified the calculation reported in the '96 Incremental Methodology and Factors Binder for each equipment account used in the BNF LRIC studies filed in this project. In general, SWBT's method for developing the Maintenance/Repair Factor is logically consistent.

*c. Buildings and Grounds Maintenance*

SWBT proposes the use of a Buildings and Grounds Maintenance Factor. SWBT maintains that some of the BNFs in these LRIC studies, like DS-1 NAC BNF, cause the purchase of central office equipment, which then causes building investment, and building investment causes annual buildings and grounds maintenance expense. It is developed behind Tab 15 of the '96 Incremental Methodology and Factors Binder.

*d. Staff Review and Recommendations*

The reasoning behind the development of the Building and Grounds Maintenance Factor is very similar to that behind the development of the Building Investment Factor (as described above). In other words, SWBT has not demonstrated that there is a direct incremental relationship between building and grounds maintenance expense and the provision of a BNF. Staff believes that until a method is developed to show the direct building and grounds maintenance requirements and concomitant building and grounds maintenance costs caused by a BNF, building and grounds maintenance expense should be regarded as a common cost, and therefore recommends that SWBT remove it from the ACF Sheets (and cost models as appropriate) and report it as a common cost in the appropriate common cost studies. It should be noted that SWBT does not agree with Staff's recommendation on this matter.

*e. Miscellaneous Tax*

The Miscellaneous Tax Factor develops taxes other than the income tax that are caused by investment required to provide a BNF. The Miscellaneous Tax Factor has three components: the ad valorem tax, franchise taxes, and other taxes (The factor is developed in Tab 12 of the '96 Incremental Methodology and Factors Binder.). The ad valorem tax represents property taxes levied on the firm by many jurisdictions. The franchise tax is levied on the assets of the firm. 'Other Taxes' refer to a Federal SuperFund tax based on total federal income taxes paid (for Texas operations) to fund environmental clean-up operations.

*f. Staff Review and Recommendations*

Staff has verified the accuracy of the mathematical calculation of the Miscellaneous Tax Factor.

Since the capital investment required to provide a BNF is both property and an asset, it is appropriate to consider ad valorem taxes and franchise taxes as being incremental to the BNFs for which LRIC studies were filed in this project. Because the SuperFund tax is based indirectly on income provided from Texas operations, and the BNFs for which LRIC studies were filed in this project help provide some of this income, Staff agrees that this tax can be thought of as incremental to the investment required to provide a BNF.

*g. Commission Assessment*

SWBT develops a factor to provide for the commission assessment as required by § 1.351 of PURA. This is applied to the sum of Total Annual Capital Costs, Equipment Maintenance, Building and Grounds Maintenance, Administration, and Miscellaneous Tax. It is developed behind Tab 16 of the '96 Incremental Methodology and Factors Binder.

*h. Staff Review and Recommendation*

Staff believes that the commission assessment can be thought of as incremental to the investment required to provide a BNF. The commission assessment factor developed by SWBT is reasonable in application, both methodologically and mathematically.

**5. Conversion of Annual Costs to the Appropriate Unit Costs**

*a. Total Annual Operating Expenses*

Total Annual Operating Expenses is the sum of Total Annual Capital Costs, Equipment Maintenance, Building and Grounds Maintenance, Administration, Miscellaneous Tax, and the Commission Assessment.

*b. Staff Review and Recommendation*

Staff has verified that the calculation is accurate. The number may change as a result of changed inputs per Staff recommendations.

*c. Total Annual Cost*

The Total Annual Cost per unit of the BNF is the sum of Total Annual Capital Costs and Total Annual Operating Expenses. These units are per line for the Personalized Ring BNF studies, per channel for the NAC and Line Haul BNF studies, per connection for the DS-3 NACC BNF study, and per arrangement for both of the Multiplexing BNF studies.

*d. Staff Review and Recommendation*

Staff has verified that the calculation is accurate. The number may change as a result of changed inputs per Staff recommendations.

*e. Total Monthly Cost*

The Total Monthly Cost per unit of the BNF is calculated by dividing Total Annual Cost per unit of the BNF by twelve. Again, these units are per line for the Personalized Ring BNF studies, per channel for the NAC and Line Haul BNF studies, per connection for the DS-3 NACC BNF study, and per arrangement for both of the Multiplexing BNF studies.

*f. Staff Review and Recommendation*

Staff has verified that the calculation is accurate. The number may change as a result of changed inputs per Staff recommendations.

**IV. Other Recommendations**

SWBT has failed to properly identify the existence of common costs in BNF LRIC studies filed in this project. For example, in the Personalized Ring BNF LRIC study, SWBT uses the following statement: "This study did not seek to identify any family costs (cost common to groups of BNFs), which might exist." As discussed in GC's Comments

on 14091, Section 23 91(h) requires the LECs to " .identify all instances in which BNFs and groups of services share significant common costs and shall calculate such common costs." In Project No 14091, Staff recommended and the ALJ ordered SWBT to " .make an affirmative statement of whether they believe that the BNF or service shares costs with other BNFs or services." Staff understood then and understands now that SWBT may not be able to calculate such common costs, or know exactly which BNFs share costs with the Personalized Ring BNFs for which studies were filed in this project. Staff simply recommends that the ALJ order SWBT to state whether or not it believes there to be common costs associated with these BNFs at this time. Staff and SWBT have agreed upon generalized language to include in the all of the BNF LRIC studies filed in this project to fulfill the requirement of stating the existence of common costs. SWBT has agreed include the appropriate language in all of the revised BNF LRIC studies.

## **V. Summary of Recommendations**

SWBT has indicated their willingness to implement the following Staff recommendations for the BNF LRIC studies filed in this project. The ALJ should order SWBT to file amended BNF LRIC studies within 60 days of the ALJ's order. In the amended studies SWBT should:



1. Remove the application of the TPI factor from the unit investment on the ACF Sheets for the Voice Grade/DS-1 Multiplexing and the DS-3 NACC BNF LRIC studies (See page 38)
2. Correct the mistransfers of LPVST results between the WC2/D2/MB2 Output Page in the DS-1 NAC Investment Study Binder and the ACF Sheets in the DS-1 NAC BNF LRIC Study Binder (See page 54)
3. Compute the switch resource capacity costs in the Personalized Ring BNF studies to reflect a long-run incremental approach as required by §23.91 (See page 58).
4. Apply the corrected switch investment to the Feature Investment Module of SCIS for the Personalized Ring BNFs (See page 59)
5. Correct the misapplication of the Building Investment Factor in the DS-3 Dedicated Interoffice Facility BNF, for Cost Driver Combination Large-to-Large, 20 to 50 miles, in the 'Additional Miles' Section (See page 79).
6. Include the statement(s) agreed upon by Staff and SWBT as to the existence of common costs in the Overview/Methodology of each BNF LRIC study (See page 92).